



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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Second District

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Third District

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Fifth District

December 17, 2009

To: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

## SACRAMENTO UPDATE

### Joint Senate and Assembly Select Committees on Improving State Government

On December 15, 2009, the Senate and Assembly Select Committees on Improving State Government convened a joint informational hearing, "Untangling the State and Local Government Relationship: Moving Government Closer to the People." While the subject matter of the hearing has been frequently discussed over the years by legislative policy and fiscal committees, commissions, and task forces, this hearing served to frame future committee discussions. Another hearing will be held in mid-January 2010.

Marianne O'Malley from the Legislative Analyst's Office (LAO) provided an overview of the evolution of the fiscal and programmatic relationship between the State and local governments. Ms. O'Malley outlined the "Ten Events That Shaped California State-Local Fiscal Relations" (attached), which included the following key events:

- Proposition 13 of 1978, which made significant changes to property taxes and established a new two-thirds voter approval requirement for new local special taxes, along with a two-thirds vote requirement of the Legislature to impose new State taxes;

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Each Supervisor  
December 17, 2009  
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- AB 8 of 1979, which created the "Proposition 13 Bailout" that resulted in the State assuming greater financial responsibilities;
- State-Local Realignment of 1991, which established major program and fiscal responsibility exchanges between the State and counties;
- Educational Revenue Augmentation Fund (ERAF) shifts of 1992 and 1993;
- Triple Flip of 2004 where the State reduced local government vehicle license fee and sales tax revenues, and replaced lost local revenues with ERAF funds; and
- Proposition 1A of 2004, which protected local revenue streams by constraining the State's fiscal authority over local government finances.

The second panel provided county and city perspectives on better alignment of State and local government responsibilities, such as allowing local governments greater flexibility to provide services while ensuring local government fiscal stability. Panelists included Tony Oliveira, Kings County Supervisor and President of the California State Association of Counties; California Mental Health Directors Association Executive Director, Patricia Ryan; Executive Director of the County Welfare Directors Association, Frank Mecca; and Robin Lowe, Hemet City Council Member and President, League of California Cities. The discussion included the efficacy of past realignment efforts, the logistical challenges and fiscal considerations of program realignment, and how further realignment might bring government closer to the citizens.

The final panel, which included the outgoing State Director of Finance Mike Genest and former State Legislator Steve Peace, addressed the State Budget problems, and focused its discussion on identification of better alignment of program responsibility options to achieve program and fiscal accountability.

We will continue to keep you advised.

WTF:RA  
MR:IGEA:sb

Attachment

c: All Department Heads  
Legislative Strategist

December 15, 2009

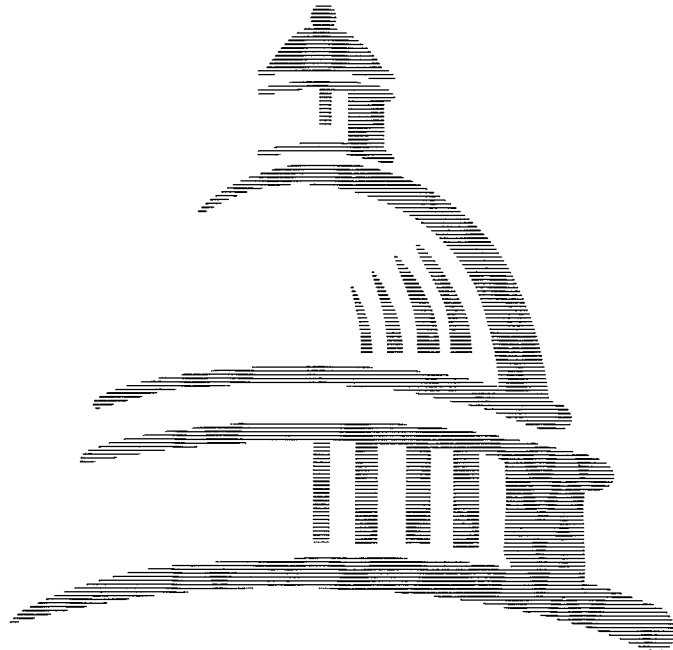
# Ten Events That Shaped California State-Local Fiscal Relations

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate and Assembly Select Committees on  
Improving State Government





## **Number 1 1910 Separation of Sources Act**

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### **Sought to Resolve State-Local Friction and Promote Accountability**

- Separate finances of state and local governments.
- State would tax railroads, telegraph, and telephones.
- Local government would tax property. Each local government would set its own tax rate.



### **One of Nation's Strongest Actions to Promote Local Governance**

- Established notion that the government that imposed a tax determined how it would be used.



### **Importance Today**

- Perception of local fiscal independence continues, despite conflicts with modern constitutional provisions and practice.



## Number 2 1930s New Deal

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### ☒ State Enlisted Counties to Administer Safety Net Programs

- Counties assumed new responsibilities.
- County property taxes used to pay for programs.

### ☒ Importance Today

- State and county responsibilities and finances inextricably linked.

2007-08 County Revenues	
<i>(In Millions)</i>	
Intergovernmental revenues	\$27,280
Property tax	11,374
Sales and others taxes	1,514
Charges and other	10,214
<b>Total</b>	<b>\$50,382</b>



## Number 3 1952 Proposition 18

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- ☒ **Authorized Redevelopment Agencies to Pledge Property Tax Growth to Pay Debt Obligations**
- ☒ **Redevelopment Agencies Not Required to Get:**
  - Local agency approval before redirecting property taxes.
  - Voter approval before issuing debt.
- ☒ **Importance Today**
  - Use of redevelopment has grown as constraints on local revenues have increased.

<b>Redevelopment Share of Assessed Valuation 2007-08</b>	
<i>Selected Counties</i>	
<i>County</i>	<i>Percent of Assessed Valuation</i>
San Bernardino	31%
Riverside	26
Butte	20
Solano	20
Yolo	18
Statewide average	12



## **Number 4 1972 SB 90**

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- ☒ **Set Maximum Local Property Tax Rates**
  - Homeowners expected tax bills to decline.
- ☒ **Statutory Requirement to Pay for State-Mandated Local Programs**
- ☒ **Created School "Revenue Limits"**
  - State aid supplements local property tax revenues to equalize school district resources.
- ☒ **Importance Today**
  - Largely ended relationship between each school district's property taxes and its overall resources.
  - Inextricably linked state and school finance.



## **Number 5 1978 Proposition 13**

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### **Major Changes to Property Tax**

- Set maximum tax rate at 1 percent.
- Assessed property based on its purchase price.
- Gave Legislature responsibility for allocating property tax.



### **New Two-Thirds Vote Requirements**

- Voter approval for new local special taxes.
- Legislative approval for new state taxes.



### **Importance Today**

- State has authority over allocation of primary local tax.
- Established different government approval requirements for (1) creating spending obligations and (2) raising taxes.





## Number 6 1979 AB 8



### State's "Proposition 13 Bailout"

- State assumed about \$1 billion of cost for county safety net programs.
- Shifted share of property taxes from schools to other local governments (backfilling schools).

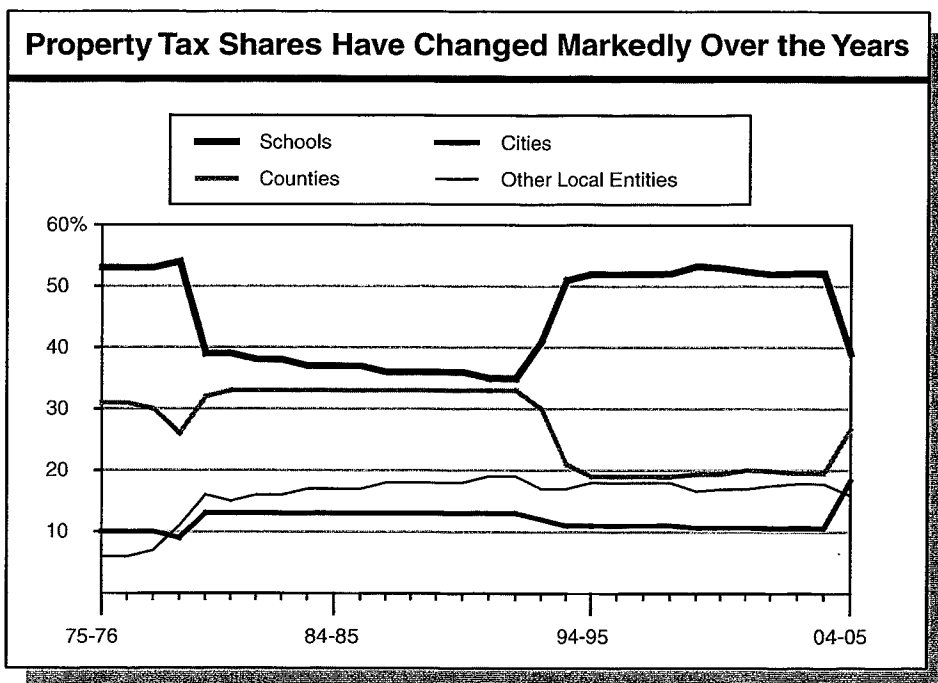


### Allocated Property Taxes Based on Each Local Government's Share of Revenues Prior to Proposition 13



### Importance Today

- Property taxation decisions of mid-1970s locked into place.
- State assumed greater financial responsibilities.





## **Number 7 1991 Realignment**

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- ☒ **Major Program Swap Between State and County**
- ☒ **State Raised Taxes and Allocated Revenues to Counties to Administer Programs**
- ☒ **Importance Today**
  - Example of fluidity of state-county program duties and potential to improve program outcomes by realigning program authority.



## Number 8 1992 and 1993 ERAF Shifts

### ☒ Ongoing Shift of About One-Sixth of Property Tax to Schools

- Educational Revenue Augmentation Fund (ERAF).

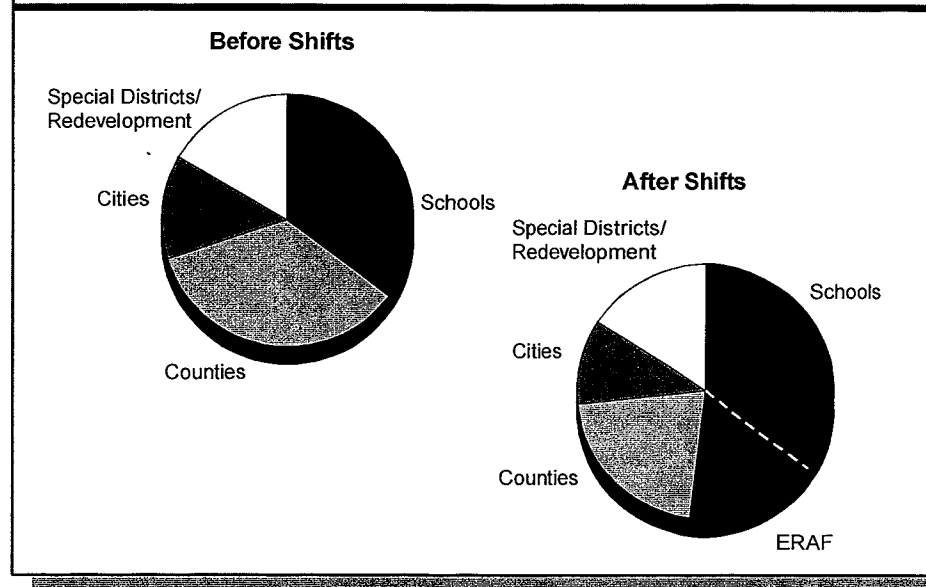
### ☒ Each Local Government's Shift Based Partly on Its AB 8 Benefits

### ☒ Fiscal Impact of ERAF Partly Offset by Proposition 172

### ☒ Importance Today

- State used authority over property tax allocation for state fiscal benefit. Continued debate about the "fairness" of agency ERAF amounts and Proposition 172 allocations.

#### Reallocating the Property Tax Pie The Impact of the 1992-93 and 1993-94 Shifts





## **Number 9 2004 Triple Flip/Swap**

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### **Different Reasons, Same Approach**

- State reduced local government tax revenues (vehicle license fee [VLF], sales tax).
- State replaced lost local revenues with ERAF funds, backfilling schools for reduced revenues.



### **Importance Today**

- Demonstrates fungibility of property tax and extent of state authority over local taxes.
- Further complicates property tax allocation system.



## **Number 10**

### **2004 Proposition 1A**

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- ☒ **Local Interest in Sealing Off Revenue Streams From State's Control**
- ☒ **Reduced State Authority Over:**
  - Allocation of property tax.
  - Local sales tax rate and allocation.
  - VLF rate reductions.
- ☒ **Expanded State Requirements Regarding Mandates**
- ☒ **Importance Today**
  - Constrains state fiscal authority over local finance, but does not increase local authority.
  - Some increased attention to mandates.



## **State-Local Relationship Today**

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- ☒ **Local Authority Anticipated in Separation of Sources Act Not Evident**
- ☒ **Blurred Line Between State and Local Resources and Responsibilities**
  - Makes it difficult to know which level of government to hold accountable.
  - Leads to intergovernmental tension.